

CITY OF LAWTON

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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City of Lawton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
Rick Schorg	Mayor	Jan 2016
Mike Frolkey	Council Member	Jan 2016
Perry Ludwig	Council Member	Jan 2016
Mike Otto	Council Member	Jan 2016
Patrick Saunders	Council Member	Jan 2018
Terry Masching	Council Member	Jan 2018
Janet Hasche	City Clerk/Treasurer	Retired Jan 2016
Glenn Metcalf	City Attorney	Indefinite
(After January 2016)		
Rick Schorg	Mayor	passed away July 2016
Mike Frolkey	Council Member	Jan 2020
Kevin Heiss	Council Member	Jan 2020
Mike Otto	Council Member	Jan 2020
Patrick Saunders	Council Member	Jan 2018
Terry Masching	Council Member	Jan 2018
Doug Furlich	City Clerk/Treasurer	terminated June 2016
Glenn Metcalf	City Attorney	Indefinite



Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated December 5, 2014 on the City of Lawton, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated December 5, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lawton and other parties to whom the City of Lawton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lawton during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC
Faller, Kincheloe & Co, PLC

October 7, 2016

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Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated December 5, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish minutes within fifteen days, as required.

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Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Partially corrected. Out of the four meetings tested, one of the minutes was published sixteen days after the meeting. Minutes for the other three meetings were all published within fifteen days.

- (D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Partially corrected. For the year ended June 30, 2015 the only expenditure item that exceeded budget was “Other financing uses, including transfers out”.

- (E) Timesheets – Although timesheets were prepared for some employees, there was no indication the timesheets were reviewed and approved.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets and the timesheets are reviewed and approved.

Current Status – Partially corrected. One timesheet (out of five tested) did not show any indication that it had been reviewed and approved.

- (F) Financial Condition – At July 31, 2014, the City had a deficit balance of \$142,513 in the TIF Fund.

Recommendation – The City Council should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Current Status – Corrected. For the year ended June 30, 2015 there were no deficit balances.

- (G) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 80% for infrastructure and economic development for sewer, water and streets and 20% for property tax relief. All of the local option sales tax receipts are recorded in a special revenue fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

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Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

Current Status – Not corrected. The recommendation is repeated.

- (H) Payroll – The City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that the City should have issued a Form 1099.

Recommendation – The City should file IRS Forms 1099 when applicable.

Current Status – Corrected. For the calendar year of 2015 there were many Forms 1099 issued.

- (I) Disbursement Approval – The City Council approves disbursements at each monthly meeting after the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

Current Status – Corrected. All of the fifteen disbursements tested were authorized by the City Council. The City Council adopted a resolution authorizing payment of certain recurring claims prior to council approval.

- (J) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

We noted the following related to the City's TIF certifications.

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Report on the Status of Periodic Examination Findings and Recommendations

- In October 2013, the City certified TIF indebtedness to the County Auditor for invoices and transfers from the Special Revenue, Urban Renewal Tax Increment Fund for project and other miscellaneous costs within the City's urban renewal area. While the City intended these payments to represent loans from the Special Revenue, Urban Renewal Tax Increment Fund for the related TIF projects, no evidence could be located that some of these loans were formally approved by the City Council and, accordingly, do not represent TIF debt which may be certified to the County Auditor.
- The City decertified \$336 in interest income on form 3 of the TIF certification filed with the County Auditor. However, the City's accounting records indicate the City only credited \$259 in interest income to the Special Revenue, Urban Renewal Tax Increment Fund during the year ended June 30, 2013.
- It does not appear Woodbury County's "Urban Renewal Area TIF Indebtedness/Increment Tax Reconciliation" form incorporates the TIF certification and decertification amounts the City filed with Woodbury County in October, 2013.

Recommendation – The City should establish procedures to ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification. The City should also consult legal counsel to determine the propriety of the City's TIF certification.

The City should also work with Woodbury County (County) to ensure all documentation submitted to the County is incorporated into the amount the City will ultimately receive from the County as TIF receipts.

Current Status – Partially corrected. We were unable to determine if costs certified represent TIF debt. No interest was credited to the TIF Fund as required by the Code of Iowa. We were also unable to Woodbury County's "Urban Renewal Area TIF Indebtedness/Increment Tax Reconciliation" form for the period tested.

- (K) Annual Urban Renewal Report (AURR) – The City's TIF receipts, disbursements and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's records.

In addition, the amount of obligations associated with the Low to Moderate Income requirements as reported on the AURR appear to be understated by \$120,000.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records. In addition, the City should ensure that all obligations are reported on the AURR.

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Current Status – Not corrected. The recommendation is repeated. The City's beginning balance, receipts, and debt balance on the AURR at June 30, 2015 did not agree with the client records.

- (L) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City did not report the correct transfer amounts on the City's Annual Financial Report.

Recommendation – The City should ensure that the correct amounts are reported on future Annual Financial Reports.

Current Status – Not corrected. The recommendation is repeated. With total reported annual revenues of \$1,866,309 the City showed 51.8% (\$967,109) of these revenues were transfers.

- (M) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rick Schorg, Mayor Owner of Sign Pro	Signs	\$2,371

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transaction with Rick Schorg does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

Current Status – The same company provided signs for a total of \$176.

- (N) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

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- (O) Tax Increment Financing Fund Disbursements – Chapter 403.19(10)(b) of the Code of Iowa provides moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide for LMI assistance.

During the year ended July 31, 2014, the City paid \$2,524 of claims from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for these costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

Current Status – Corrected. No claims were paid directly from the TIF Fund.